ST. JOSEPH HEALTH SYSTEM

St. Joseph Health System Supply Chain Organization

Medical Device Supply Chain Council

Mid-Year Meeting

Welcome

You never change things by fighting the existing reality. To change something, build a model that makes the old model obsolete.

System Family

The Saint Joseph Health System has approximately 3,549 beds

- **Southern California**
  - St. Mary Medical Center – Apple Valley, CA - 186 beds
  - St. Joseph Hospital – Orange, CA - 468 beds
  - St. Jude Medical Center – Fullerton, CA – 333 beds
  - Mission Hospital – Mission Viejo, CA – 272 beds
  - St. Joseph Health System Home Health Agency
  - St. Joseph Health System Home Care Services – Orange, CA
  - St. Joseph Heritage Healthcare – Fullerton, CA

System Family (cont.)

Northern California

St. Joseph Health System – Humboldt County

- St. Joseph Hospital – Eureka, CA 146 beds
- General Hospital Campus 74 beds
- Redwood Memorial Hospital – Fortuna, CA 46 beds

St. Joseph Health System – Napa Valley

- Queen of the Valley Hospital – Napa, CA 159 beds

St. Joseph Health System – Sonoma County, CA

- Santa Rosa Memorial Hospital – 345 beds
- Petaluma Valley Hospital –80 beds

St. Joseph HealthCare Network

St. Joseph Health Foundation of Northern California

System Family (cont.)

Texas

Covenant Health System

- Covenant Medical Center – Lubbock, TX – 819 beds
- Covenant Medical Center Lakeside – Lubbock, TX 400 beds
- Covenant Children's Hospital – Lubbock, TX - 73 beds
- Covenant Hospital Levelland –Levelland, TX – 48 beds
- Covenant Hospital Plainview – Plainview, TX 100 beds
- Covenant Home Health Care – Lubbock, TX
- Covenant Medical Group – Lubbock, TX

Financial & Statistical Information

- 143,000 discharges
- 2.4 million outpatient visits
- 534,000 home health visits
- 1.7 million clinic visits
- Average length of stay is 4.92 days
- 19,000 FTEs

Financial & Statistical Information

- Supply cost of $496+ million is 14.3% of total net revenue.
- Payor Mix
  - 52% Managed care
  - 35% Medicare
  - 9% Medicaid
  - 4% Other
- The Health System carries a bond rating of Aa from Standard & Poors and Moodys on outstanding debt.

Provider Challenges

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- Seismic improvements needed for California hospitals.
- Increase in the uninsured population (nationally 44 million persons are uninsured).
- Increasing consumer expectations.
- The Healthcare Insurance Portability and Accountability Act (HIPAA).
- Reimbursement does not match the level of care provided in market leading institutions and geographical locations.
- Labor market shortages (RNs, radiology, ultrasound & nuclear medicine techs and medical records coders).
- Technology increases are outpacing reimbursement.

Supply Chain Organization

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- Jim McManus, Vice President-Finance
- Bruce Boulton, Corporate Director-Supply Chain
- Susan Wilson-Bromley, Corporate Manager-Supply Chain
- Bill Miller, Corporate Senior Buyer
- Roberta Brenton, Senior Contract Analyst
- Mary Roberts, Supply Chain Coordinator
- Tina Smith, PMM Data Analyst
- Sr. Diane Hejna, Director of Ecology Programs
- Ron Scott, Director of Clinical Supply Programs
- Sara Gibson, Med/Surg Liaison (Cardinal)

Collaborative Teams

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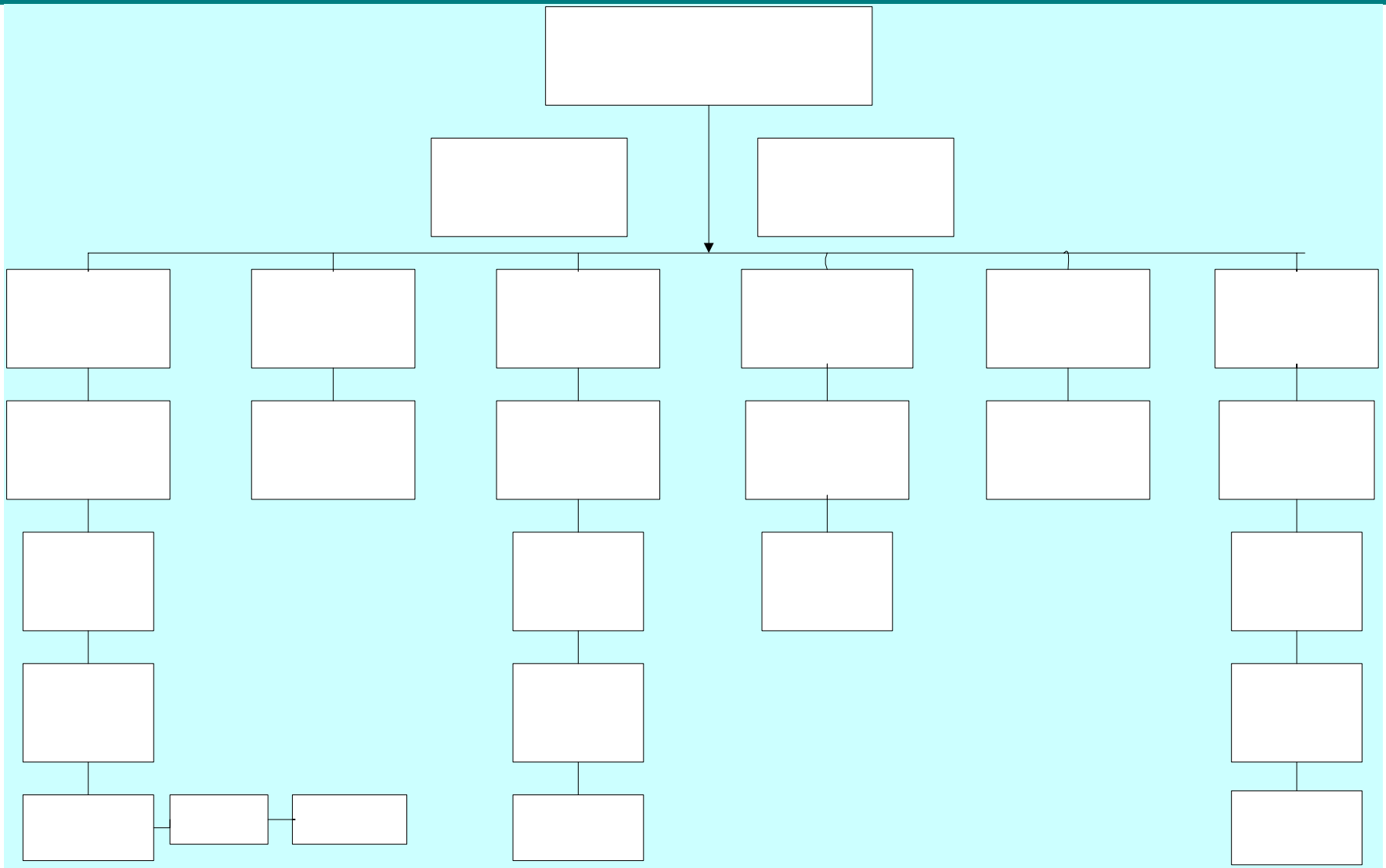
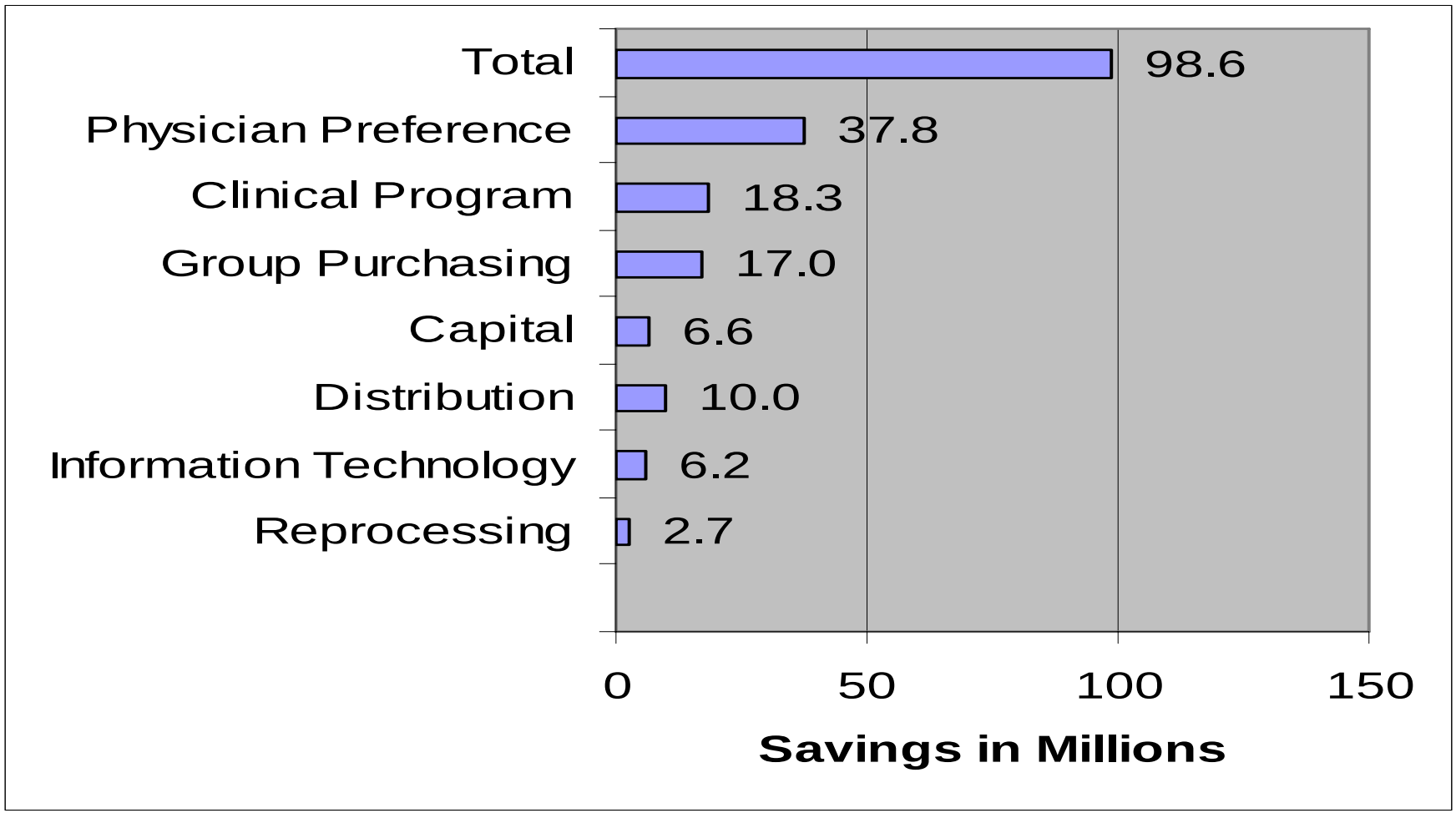
- **Quarterly Meeting, Monthly Conference Call**
  - Materials
  - Operating Room
  - Pharmacy
- **Semi-Annual Meeting, Monthly Conference Call**
  - Laboratory
  - Radiology
  - FoodService
- **Annual Meeting, Monthly Conference Calls**
  - Cath Lab
  - Respiratory Therapy
  - Advanced Wound Care
  - Pharmacy Buyers
- **Monthly Conference Calls**
  - Clinical Pharmacists
  - PMM Data Management Team
  - Environmental Services
  - Physician Preference Product Advisory Council

Supply Chain Organization



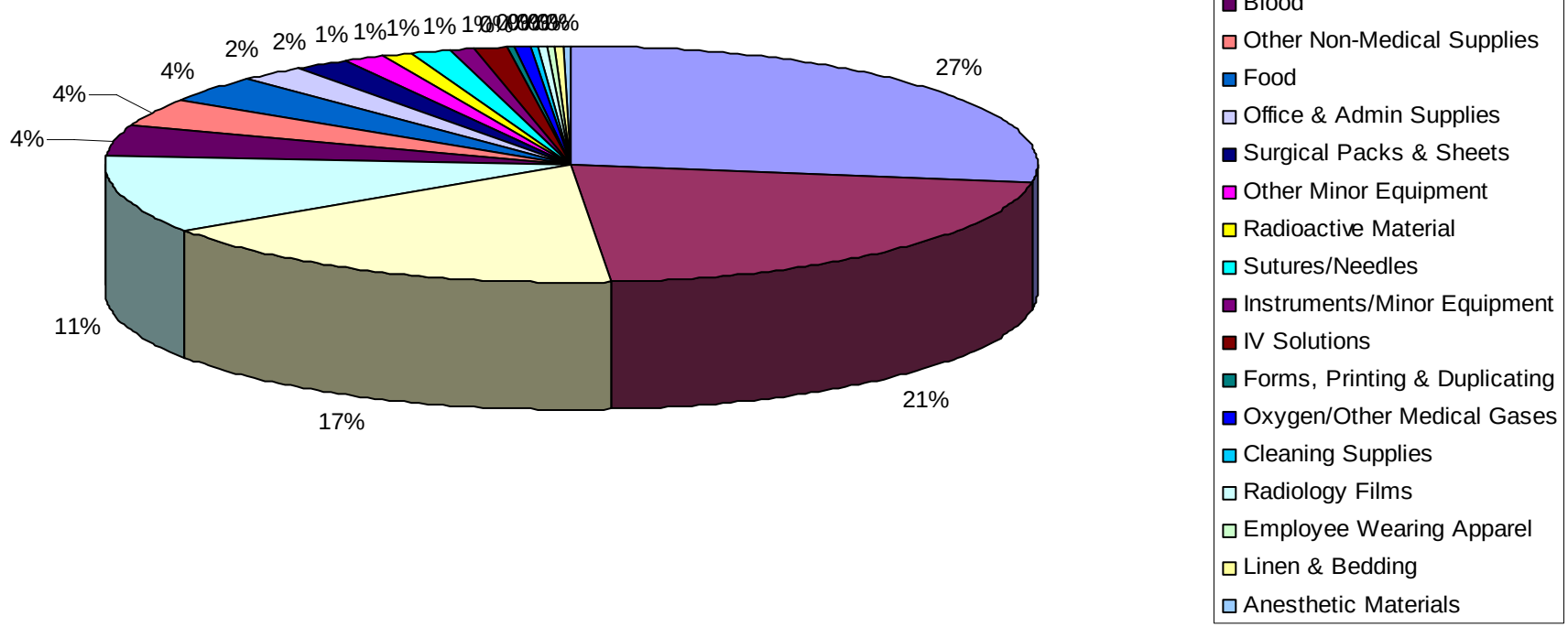
Supply Chain Savings (approx. 5 yrs.)



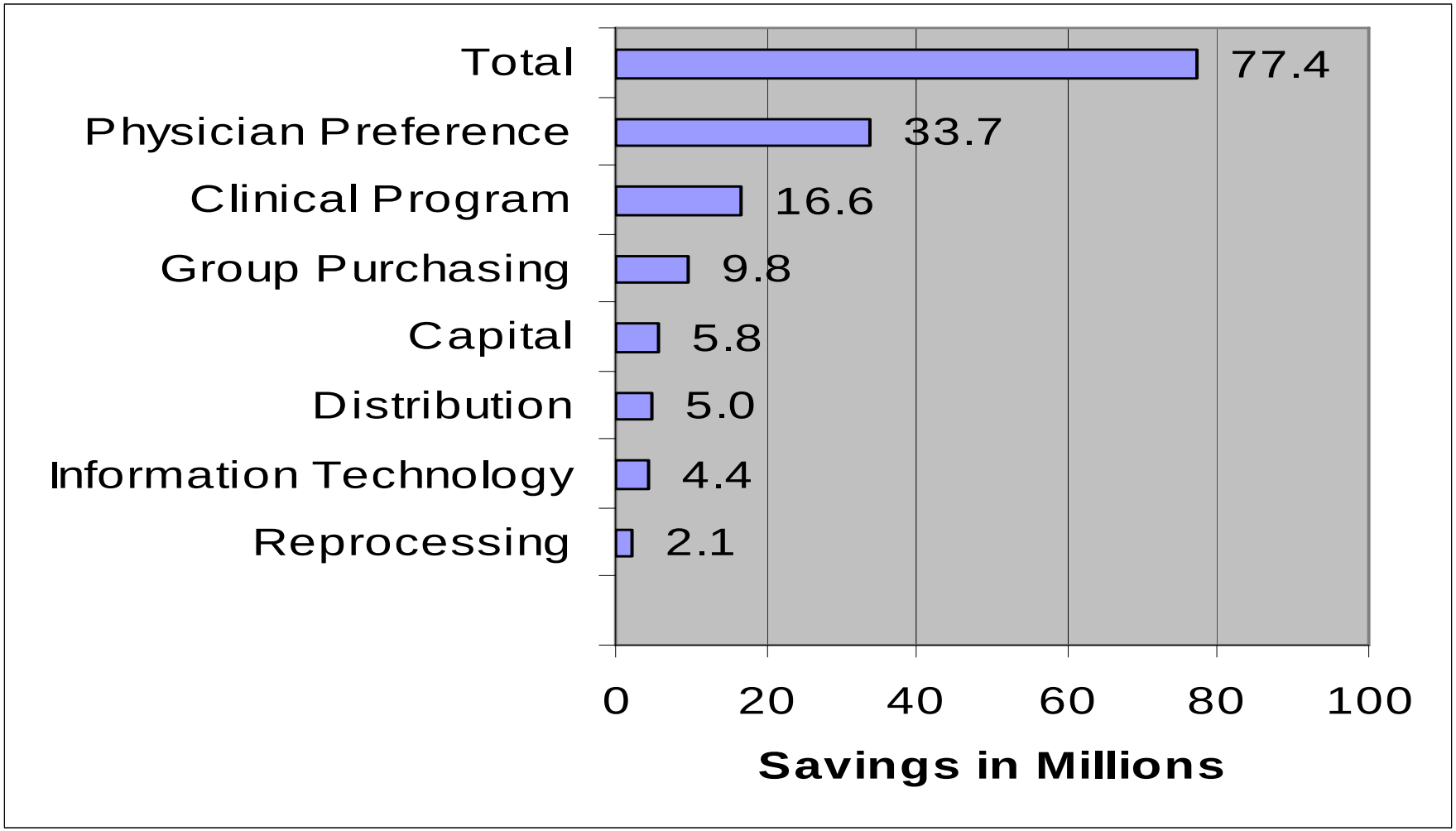
Supply Cost as a % of Net Revenue

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
System-Wide								
Percent	16.0%	15.7%	15.7%	15.2%	15.2%	15.0%	14.6%	14.3%
Supply Delta		6,825,595	234,818	14,126,568	(90,216)	4,853,467	8,485,849	8,097,583
Cumulative Supply Delta			7,060,413	21,186,981	21,096,765	25,950,232	34,436,081	42,533,664

Supply Composition FY2006



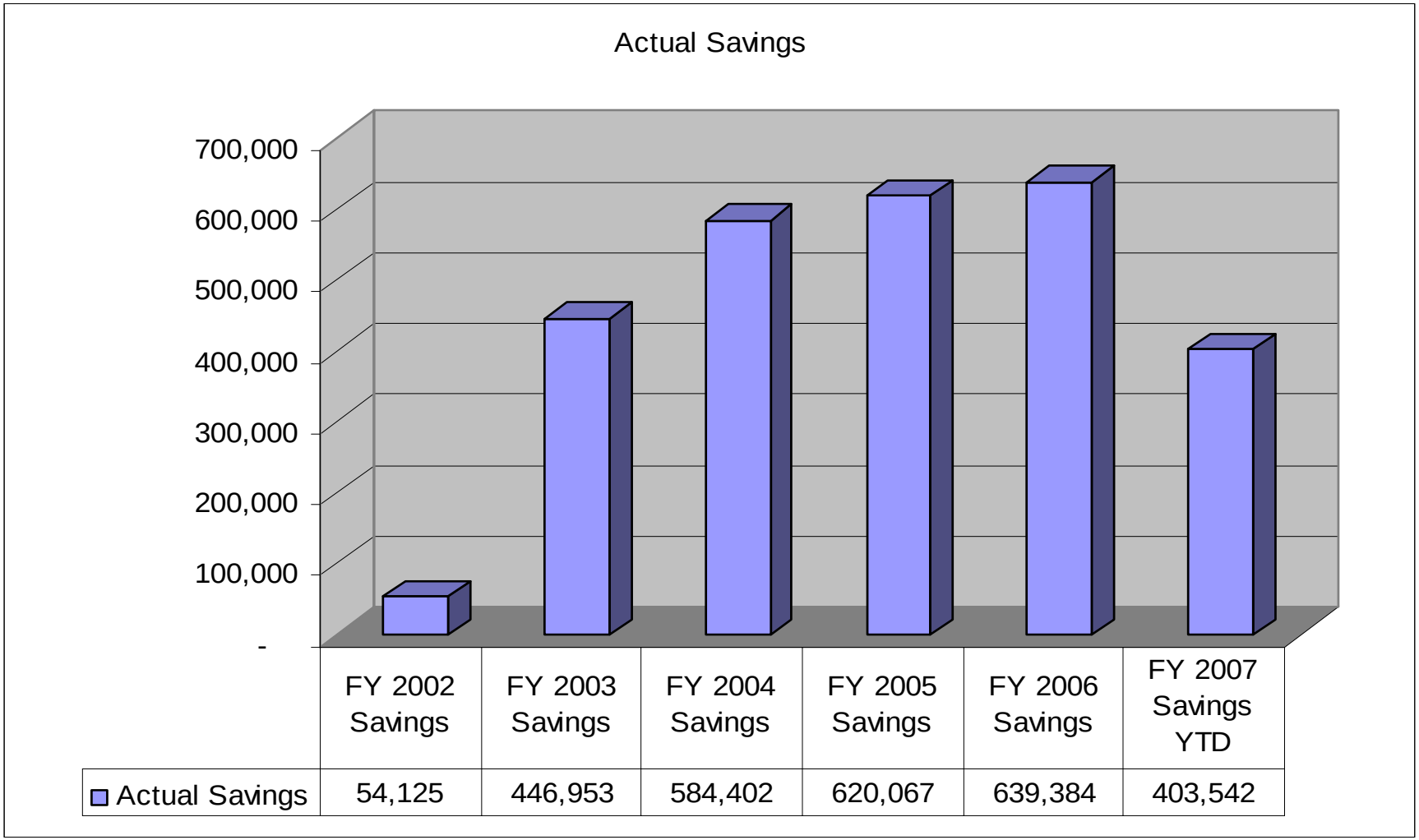
Supply Chain Savings (approx. 4 yrs.)



Pharmacy as of 12/31/06

	% Cardinal	Increased Utilization	D/C Therapy	New Therapy	Cost Inc/(Dec)	Total Change	APD Change
St. Joseph, Orange	86.0%	-2.5%	-16.2%	14.4%	1.5%	-2.7%	3.2%
St. Jude	103.0%	7.7%	-13.6%	10.1%	0.5%	4.7%	1.7%
Mission	77.6%	-8.9%	-13.7%	13.1%	1.9%	-7.6%	-0.3%
St. Mary	90.6%	4.3%	-10.3%	13.8%	-0.3%	7.5%	6.6%
Queen	99.6%	1.9%	-11.4%	15.9%	0.6%	7.1%	4.0%
Santa Rosa	97.7%	1.6%	-17.3%	12.2%	-0.4%	-3.8%	1.7%
Petaluma	82.1%	0.2%	-15.6%	13.6%	-0.4%	-2.2%	-13.7%
St. Joseph, Eureka	97.0%	1.4%	-15.2%	11.4%	2.6%	0.2%	-3.0%
Redwood	102.4%	-2.2%	-36.8%	22.9%	0.0%	-16.0%	-0.7%
Covenant - Lubbock	88.4%	14.3%	-12.2%	10.5%	0.0%	12.6%	0.6%
Joe Arrington		-7.2%	-3.5%	2.5%	3.1%	-5.2%	
Covenant - Levelland	120.6%	2.1%	-26.5%	35.0%	-3.1%	7.4%	-12.5%
Covenant - Plainview	63.3%	-13.2%	-23.6%	19.4%	0.2%	-17.2%	4.1%
Total	**89.9%**	**1.8%**	**-12.6%**	**11.1%**	**1.0%**	**1.4%**	**1.1%**

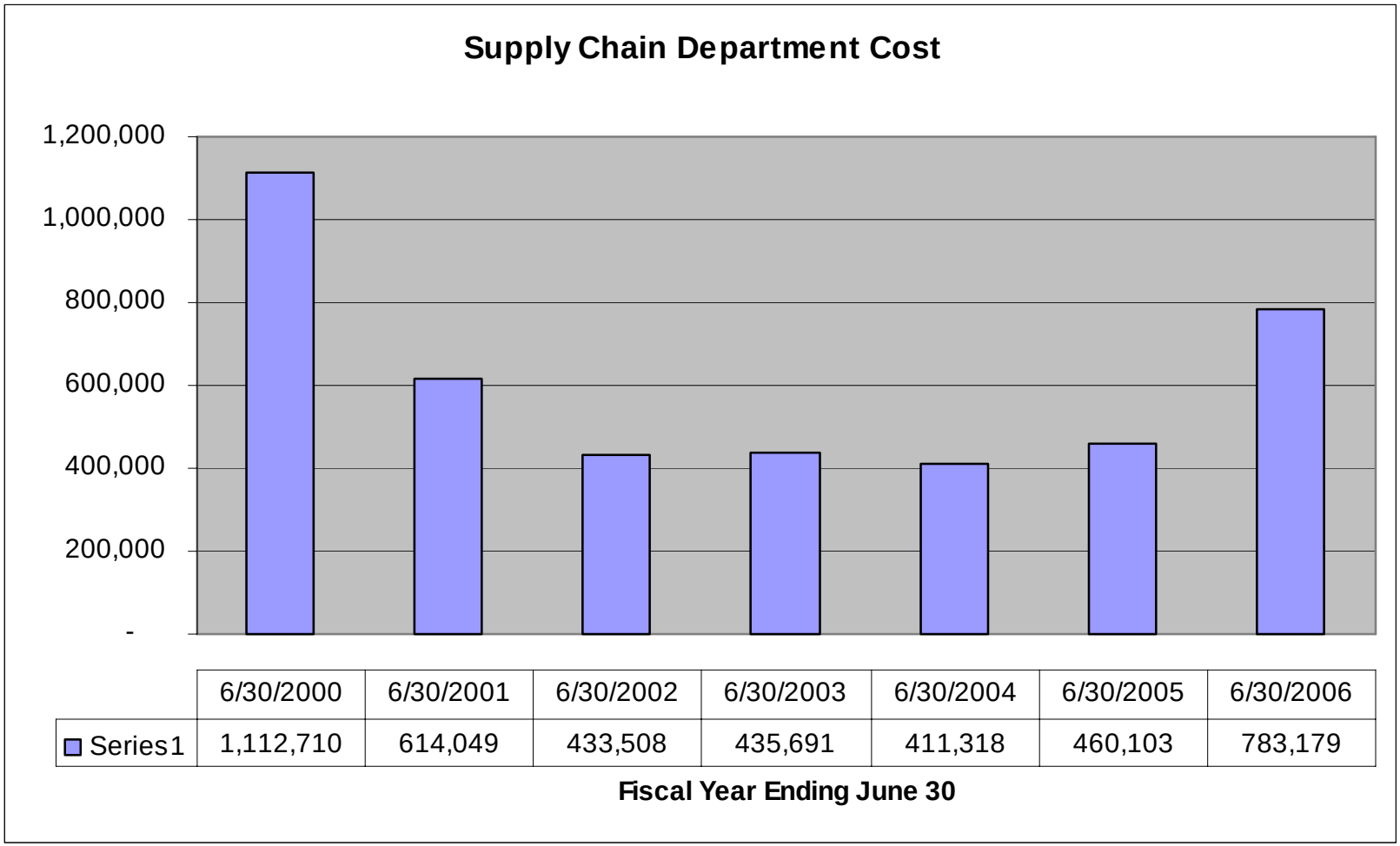
Reprocessing Savings Trend



	FY 2002 Savings	FY 2003 Savings	FY 2004 Savings	FY 2005 Savings	FY 2006 Savings	FY 2007 Savings YTD
Actual Savings	54,125	446,953	584,402	620,067	639,384	403,542

TOTAL SAVINGS TO DATE IS $2,748.473.

Supply Chain Department Cost Trend



Supply Chain Initiative

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- Reduce supply expense by $15 million on a cost per adjusted patient day/discharge basis and hold constant for at least 3 years **(in process, over $77+ million documented).**
- Obtain a guarantee for the aforementioned savings **(achieved).**
- Reduce supply expense by an additional $15 million by counting and recording unofficial inventories **(achieved $8.8 million).**

Supply Chain Initiative

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- Reduce inventories by implementing an inventory reduction program **(marginal).**
- Achieve a high degree of product standardization **(in process, several successes).**
- Work with business partners to increase the annual savings from $15 million to $30 million **(achieved).**

Supply Chain Initiative

- Select and install an integrated materiels management system **(achieved).**
- Select and implement an e-commerce solution **(achieved).**
- Establish standard procurement policies and procedures **(in process).**
- Establish a capital review process **(achieved).**

Accomplishments (3/02-3/06)

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People

- Restructured Health System Office Supply Chain Department.
- Formed 14 collaborative groups with monthly conference calls and periodic on-site meetings.

Capital

- **Developed capital process using MD Buyline as the enabler to obtain the lowest price for equipment.**
- **Began focus on group-buy opportunities.**

GPO

- Changed GPO relationship to MedAssets, HSCA.
- **Implemented information technology to validate contract and line-item pricing.**

Accomplishments (3/02-3/06)

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Distribution

- Converted all Med./Surg. distribution to Cardinal along with the majority of manufactured agreements.
- Converted one hospital's pharmacy distribution to Cardinal.
- Converted all food service distribution to Sysco.
- Converted blood fractions distribution to NSS.
- **Implemented quarterly reviews with distributor.**

Physician Preference Supplies

- With the assistance of Aspen, executed contracts with significant price reductions for orthopedics, cardiac rhythm management, cath lab and spine.
- **Established a reporting tool to track savings on a monthly basis.**

Accomplishments (3/02-3/06)

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Clinical and Support Programs

- **Health System Clinical Pharmacist and clinical pharmacy program.**
- Cardinal RxEsource program for pharmacy management.
- Cardinal value-added programs (value-link, PBDS, OPEX) implemented at various hospitals.
- Logistical consulting services.
- Health System wide supply inventory.

Accomplishments (3/02-3/06)

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Information Technology

- **Implemented PMM, an integrated materiels management system on time and under budget.**
- Consolidated 11 item masters, vendor files and other various files to one file.
- **Implemented a reporting system for aggregation of purchases for negotiating contracts.**
- **Implemented an e-commerce system with GHX.**

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Medical Device Companies & Providers

How are we aligned?

Where are the challenges?

Mission

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Provider Example

"To extend the Catholic health care ministry of the Sisters of St. Joseph of Orange, by continually improving the health and quality of life in the communities we serve."

Medical Device Company

Improving the health and quality of life of individuals should be at the center of most Medical Device Companies mission statements.

Group Purchasing Organizations (GPOs)

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Medical Device Company Philosophy

Most medical device companies believe their products are not a commodity and feel that GPO contracts are not a benefit because market share cannot be driven by a GPO, but rather a provider or within a provider's group of hospitals.

Provider

Most providers will tend to agree with this statement.

How about Administrative Fees???

Top-Down vs. Collaborative Provider Organizations

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Most top-down provider organizations act and react quicker to changes in market conditions. Relationships within the organization may not be as key as collaborative organizations. Collaborative organizations decision making processes tend to be much slower.

Medical Device Companies usually agree with the above statement.

Reimbursement Environment

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Provider

Reimbursement from most sources (Medicare, MediCaid, Health Plans, Indigent Care Programs) does not match the level of care provided to the patient. A governmental action is always on the horizon and the provider community has little time to react to the changes (less than 1 year).

Medical Device Companies…

Will tend to agree with the above statement and will also advocate for increased reimbursement, especially in their areas of product expertise.

Free Market?

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Provider

No. Provider currently absorbs a large portion of new technology cost and legislative changes.

Medical Device Companies

Yes. Costs in developing new technologies along with the manufacturing process, hurdle rates and EPS requirements are calculated in the sales price of the product.

Who will absorb the reduced Medicare payment?

Proposed Payment Reductions for Coronary Stent and Related DRGs		
DRG	**Description**	**% change v. FY 2006**
555	Percutaneous Cardiovascular Procedures with MCV	- 21%
556	Bare Metal Stent without MCV	- 34.1%
557	Drug Eluting Stent with MCV	- 23.5%
558	Drug Eluting Stent without MCV	- 33.4%
518	EP Procedures without Stent	- 28.9%
Proposed Payment Reductions for ICD and Pacemaker Implant DRGs		
DRG	**Description**	**% change v. FY 2006**
515	ICD implant without Cardiac Catheterization	- 22.6%
535	ICD Implant with Cardiac Catheterization with AMI/HF/Shock	- 23.8%
536	ICD implant with Cardiac Catheterization without AMI/HF/Shock	- 22.2%
551	Pacemaker implant with MCV	- 12.5%
552	Pacemaker Implant without MCV	-13.3%
Proposed Payment Reductions for CABG DRGs		
DRG	**Description**	**% change v. FY 2006**
547	CABG with Cardiac Catheterization with MCV	- 5.4%
548	CABG with Cardiac Catheterization without MCV	-8.8%
549	CABG without Cardiac Catheterization with MCV	-1.3%
550	CABG without Cardiac Catheterization without MCV	- 1.4%
Proposed Payment Reductions for Non-Coronary Vascular DRGs		
DRG	**Description**	**% change v. FY 2006**
479	Other Vascular Procedures w/out CC	- 9.2%
553	Other Vascular Procedures with CC and MCV	- 5.6%
554	Other Vascular Procedures with CC without MCV	- 3.1%
533	Extracranial Procedures with CC	- 2.6%
534	Extracranial Procedures without CC	- 2.3%

Healthcare Insurance Portability and Accountability Act (HIPAA)

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Medical Device Company

We abide by the HIPAA guidelines and have our own internal controls to protect and safeguard patient information. We do not need to sign a Provider HIPAA agreement. We do not receive patient confidential information directly from Providers.

Providers

A HIPAA business associate agreement is required since the Company "may be exposed" to patient confidential information by their presence in the Provider's facility(s).

Stark vs. AdvaMed

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Provider

Providers are prohibited from taking any action that results in payment to a physician, physician practice or a group. All actions must be clearly and fully documented. Stark is mandated and punishable by fines and imprisonment if breached.

Medical Device Companies

AdvaMed was created to appease the government and to avoid governmental legislation. Membership and compliance is voluntary. Oversight is narrow and weak. Does not fully address physician relationships.

Who is the Customer?

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Provider Perspective

The Provider (Hospital) is the customer. After all, they pay the bills.

Medical Device Company Perspective

The Physician is the customer. After all, they use the products.

Confidentiality of Data

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Provider

Confidentiality should extend only to individual sharing of data with other providers/IDNs and with the competitors of the medical device company. Benchmarking is okay.

Medical Device Company

Data is proprietary to the medical device company and should not be shared with any party without the express written consent of the medical device company.

Other Thoughts?

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